

## EXECUTIVE SUMMARY

The employment surge at the end of last year and the beginning of this year has once again raised expectations for the Idaho economy. Estimates based on data provided by the Idaho Department of Commerce and Labor show Idaho nonfarm employment expanded at a 2.8% annual pace in the fourth quarter of 2004 and at a 2.2% rate in the first quarter of 2005. At this pace, Idaho nonfarm employment should have crossed the 600,000-job threshold this spring, which is well ahead of schedule. Idaho's nonfarm employment rally reflects the strong showings of several sectors. The most noteworthy is construction. According to the new data, Idaho construction employment achieved an astonishing 11.9% growth rate in both the last quarter of 2004 and the first quarter of 2005. The construction sector's strength was complimented by better-than-anticipated employment growth in the state's services and government employment categories. Idaho nominal personal income also spiked late last year. According to the U.S. Department of Commerce's Bureau of Economic Analysis, Idaho nominal personal income advanced at a 15.6% annual rate in the last quarter of 2004. This income flood was largely the result of late-year distribution of bonuses and raises. This can be seen in the wage and salaries portion of personal income that increased a whopping 14.7% in last year's fourth quarter. Idaho personal income also benefited from the influx of dividends, interest, and rent that increased at a nearly 22% annual pace in the same quarter. Other sources that contributed to fourth quarter personal income growth include government transfers to individuals (9.7%) and other labor income (13.8%). The current Idaho outlook is the result of two major factors. First, Idaho's recent strong economic growth has raised the starting points for the forecasts of nonfarm employment and nominal personal income relative to their counterparts in the April 2005 *Idaho Economic Forecast*. Second, the fundamentals fueling the state's economy have change little since the previous forecast. The combination of these two factors jump-starts the state's near-term economic forecast. Specifically, Idaho nonfarm employment grows by 2.5% in 2005, which is about one-half percentage point higher than in the previous forecast. Idaho nominal personal income is projected to rise 6.5% this year compared to the previous forecast's 5.3%. After this year, both Idaho nonfarm employment and personal income should rise roughly in line with their respective counterparts from the previous forecast.

The U.S. economy is expected to transition from overachiever to slight underachiever during the next few years. This can be seen in the real GDP data. It is anticipated real GDP will advance slower this year than last. Specifically, real GDP is expected to rise 3.5%, which is still slightly higher than its potential. Beginning in 2006, real GDP growth is forecast to slip to around 3% for a couple of years, which is slightly below its potential. It needs to be pointed out the 3% growth anticipated in 2006 and 2007 may be low compared to the two previous years, but is still stronger than growth experienced in the first years of this decade. It also needs to be stressed the economy will slow, but it will not stall nor retreat during the forecast period. Real output growth is expected to rally in 2008 to 3.3%, bringing it back to its potential. The economy's recent and near-term future performance is linked to the housing market. The combination of strong demand and low interest rates have resulted in a red-hot housing market that is on track to hit 2 million starts this year for the first time since 1978 and average existing home prices are expected to appreciate a healthy 7.2%. Unfortunately, it appears the housing sector is near its peak. Fortunately, the national housing market does not appear to be on the verge of a collapse. While several regions are at risk of a correction, national housing starts are expected to experience an orderly decline from their recent peak. National home prices will advance slower than in the last few years, but not retreat. As a result, the housing sector is not expected to be the growth engine it has been in recent years. However, neither is it anticipated to be a major drag on the economy.

**IDAHO ECONOMIC FORECAST  
EXECUTIVE SUMMARY  
JULY 2005**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>GDP (BILLIONS)</b>											
Current \$	8,747	9,268	9,817	10,128	10,487	11,004	11,735	12,446	13,075	13,741	14,515
% Ch	5.3%	6.0%	5.9%	3.2%	3.5%	4.9%	6.6%	6.1%	5.1%	5.1%	5.6%
2000 Chain-Weighted	9,067	9,470	9,817	9,891	10,075	10,381	10,842	11,226	11,565	11,923	12,319
% Ch	4.2%	4.4%	3.7%	0.8%	1.9%	3.0%	4.4%	3.5%	3.0%	3.1%	3.3%
<b>PERSONAL INCOME - CURR \$</b>											
Idaho (Millions)	27,287	29,068	31,290	33,054	34,381	35,409	37,874	40,322	42,585	44,887	47,565
% Ch	7.6%	6.5%	7.6%	5.6%	4.0%	3.0%	7.0%	6.5%	5.6%	5.4%	6.0%
Idaho Nonfarm (Millions)	26,350	28,054	30,448	32,039	33,411	34,512	36,921	39,296	41,522	43,773	46,443
% Ch	7.1%	6.5%	8.5%	5.2%	4.3%	3.3%	7.0%	6.4%	5.7%	5.4%	6.1%
U.S. (Billions)	7,423	7,802	8,430	8,724	8,879	9,162	9,690	10,319	10,913	11,491	12,170
% Ch	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	5.8%	6.5%	5.7%	5.3%	5.9%
<b>PERSONAL INCOME - 2000 \$</b>											
Idaho (Millions)	28,429	29,788	31,289	32,376	33,203	33,559	35,122	36,559	37,900	39,206	40,664
% Ch	6.6%	4.8%	5.0%	3.5%	2.6%	1.1%	4.7%	4.1%	3.7%	3.4%	3.7%
Idaho Nonfarm (Millions)	27,452	28,748	30,447	31,382	32,266	32,708	34,238	35,629	36,954	38,232	39,705
% Ch	6.1%	4.7%	5.9%	3.1%	2.8%	1.4%	4.7%	4.1%	3.7%	3.5%	3.9%
U.S. (Billions)	7,734	7,996	8,429	8,545	8,575	8,683	8,986	9,356	9,712	10,036	10,404
% Ch	6.4%	3.4%	5.4%	1.4%	0.3%	1.3%	3.5%	4.1%	3.8%	3.3%	3.7%
<b>HOUSING STARTS</b>											
Idaho	10,106	10,335	11,468	12,179	13,189	16,321	18,525	20,604	18,181	17,838	17,239
% Ch	14.1%	2.3%	11.0%	6.2%	8.3%	23.7%	13.5%	11.2%	-11.8%	-1.9%	-3.4%
U.S. (Millions)	1.621	1.647	1.573	1.601	1.710	1.854	1.950	2.034	1.814	1.752	1.726
% Ch	9.9%	1.6%	-4.5%	1.8%	6.8%	8.4%	5.2%	4.3%	-10.8%	-3.4%	-1.5%
<b>TOTAL NONFARM EMPLOYMENT</b>											
Idaho	520,477	538,102	558,577	568,013	567,999	572,494	587,989	602,440	612,863	624,740	637,720
% Ch	2.6%	3.4%	3.8%	1.7%	0.0%	0.8%	2.7%	2.5%	1.7%	1.9%	2.1%
U.S. (Thousands)	125,924	128,992	131,792	131,833	130,345	129,999	131,475	133,701	135,658	136,986	138,364
% Ch	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.5%	1.0%	1.0%
<b>SELECTED INTEREST RATES</b>											
Federal Funds	5.4%	5.0%	6.2%	3.9%	1.7%	1.1%	1.3%	3.2%	4.0%	4.2%	4.5%
Bank Prime	8.4%	8.0%	9.2%	6.9%	4.7%	4.1%	4.3%	6.2%	7.0%	7.2%	7.5%
Existing Home Mortgage	7.1%	7.3%	8.0%	7.0%	6.5%	5.7%	5.7%	6.0%	6.5%	6.6%	7.0%
<b>INFLATION</b>											
GDP Price Deflator	1.1%	1.4%	2.2%	2.4%	1.7%	1.8%	2.2%	2.4%	2.0%	1.9%	2.2%
Personal Cons Deflator	0.9%	1.7%	2.5%	2.1%	1.4%	1.9%	2.2%	2.3%	1.9%	1.9%	2.2%
Consumer Price Index	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	2.9%	2.0%	1.8%	2.1%

**National Variables Forecast by GLOBAL INSIGHT  
Forecast Begins the SECOND Quarter of 2005**

**IDAHO ECONOMIC FORECAST  
EXECUTIVE SUMMARY  
JULY 2005**

	2005				2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GDP (BILLIONS)</b>												
Current \$	12,192	12,367	12,537	12,689	12,850	13,010	13,142	13,299	13,464	13,648	13,827	14,023
% Ch	6.7%	5.9%	5.6%	4.9%	5.2%	5.1%	4.1%	4.9%	5.0%	5.6%	5.3%	5.8%
2000 Chain-Weighted	11,089	11,175	11,280	11,362	11,444	11,527	11,601	11,687	11,771	11,875	11,970	12,075
% Ch	3.5%	3.1%	3.8%	3.0%	2.9%	2.9%	2.6%	3.0%	2.9%	3.6%	3.2%	3.6%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	39,725	40,002	40,569	40,991	41,733	42,319	42,911	43,376	43,965	44,547	45,197	45,840
% Ch	4.3%	2.8%	5.8%	4.2%	7.4%	5.7%	5.7%	4.4%	5.5%	5.4%	6.0%	5.8%
Idaho Nonfarm (Millions)	38,674	38,997	39,471	40,043	40,692	41,256	41,835	42,305	42,831	43,437	44,090	44,732
% Ch	4.2%	3.4%	5.0%	5.9%	6.6%	5.7%	5.7%	4.6%	5.1%	5.8%	6.1%	5.9%
U.S. (Billions)	10,100	10,258	10,394	10,525	10,700	10,846	10,988	11,116	11,255	11,408	11,568	11,733
% Ch	3.2%	6.4%	5.4%	5.1%	6.8%	5.6%	5.3%	4.7%	5.1%	5.5%	5.7%	5.8%
<b>PERSONAL INCOME - 2000 \$</b>												
Idaho (Millions)	36,347	36,305	36,696	36,889	37,391	37,728	38,123	38,358	38,697	39,017	39,385	39,724
% Ch	2.2%	-0.5%	4.4%	2.1%	5.6%	3.7%	4.3%	2.5%	3.6%	3.4%	3.8%	3.5%
Idaho Nonfarm (Millions)	35,385	35,393	35,703	36,036	36,458	36,780	37,167	37,412	37,698	38,045	38,420	38,763
% Ch	2.1%	0.1%	3.6%	3.8%	4.8%	3.6%	4.3%	2.7%	3.1%	3.7%	4.0%	3.6%
U.S. (Billions)	9,241	9,310	9,402	9,472	9,587	9,670	9,762	9,830	9,906	9,992	10,080	10,168
% Ch	1.1%	3.0%	4.0%	3.0%	4.9%	3.5%	3.9%	2.8%	3.1%	3.5%	3.6%	3.5%
<b>HOUSING STARTS</b>												
Idaho	22,945	21,214	19,694	18,563	18,265	18,182	18,147	18,128	18,082	17,929	17,742	17,599
% Ch	55.8%	-26.9%	-25.7%	-21.1%	-6.3%	-1.8%	-0.8%	-0.4%	-1.0%	-3.4%	-4.1%	-3.2%
U.S. (Millions)	2,084	2,073	2,039	1,940	1,873	1,819	1,791	1,771	1,758	1,751	1,750	1,747
% Ch	24.5%	-2.1%	-6.5%	-18.1%	-13.1%	-11.0%	-6.1%	-4.3%	-2.9%	-1.6%	-0.3%	-0.7%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho	597,762	601,288	604,241	606,468	609,146	611,595	614,098	616,612	619,617	623,105	626,486	629,754
% Ch	2.2%	2.4%	2.0%	1.5%	1.8%	1.6%	1.6%	1.6%	2.0%	2.3%	2.2%	2.1%
U.S. (Thousands)	132,822	133,460	133,961	134,560	135,051	135,515	135,885	136,183	136,460	136,829	137,149	137,508
% Ch	1.6%	1.9%	1.5%	1.8%	1.5%	1.4%	1.1%	0.9%	0.8%	1.1%	0.9%	1.1%
<b>SELECTED INTEREST RATES</b>												
Federal Funds	2.5%	2.9%	3.4%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.2%	4.3%	4.3%
Bank Prime	5.4%	5.9%	6.4%	6.9%	7.0%	7.0%	7.0%	7.0%	7.0%	7.2%	7.3%	7.3%
Existing Home Mortgage	5.8%	5.9%	6.0%	6.2%	6.4%	6.5%	6.5%	6.5%	6.5%	6.6%	6.7%	6.7%
<b>INFLATION</b>												
GDP Price Deflator	3.2%	2.4%	1.7%	1.9%	2.2%	2.1%	1.5%	1.8%	2.1%	1.9%	2.0%	2.2%
Personal Cons Deflator	2.1%	3.3%	1.4%	2.1%	1.8%	2.0%	1.4%	1.9%	1.9%	2.0%	2.1%	2.2%
Consumer Price Index	2.4%	4.4%	1.2%	2.2%	1.8%	2.1%	1.2%	1.8%	1.9%	1.9%	2.0%	2.2%

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Forecast Begins the SECOND Quarter of 2005**